

## ADVICE FOR BUILDING OWNERS IN PHOENIX

The data collected for the *Mortenson Cost Index* is showing an increase of 3.3% nationally and 2.6% in Phoenix for the second quarter of 2022. The construction market, as with many, continued to experience inflationary headwinds through the first half of the year. Material costs in Q1 increased consistent with expectations and Q2 costs followed the same trend line across the markets tracked (<4.0%).

Product lead times, fuel price increases, and labor availability and costs continue to challenge suppliers, contractors, and projects. Some early signs have emerged, however, that may signal changes ahead although it's too premature to draw conclusions. The recent Bureau of Labor Statistics Producer Price Index report<sup>1</sup> indicated a softening of input prices in a few categories while the indexes for many still advanced. Experts are watching in Q3 to see if any broader trends begin to emerge<sup>2</sup>.

The latest Federal Reserve Beige Book<sup>3</sup>, an informal report of economic activity, noted that some construction and real estate activity had slowed in Chicago and Minneapolis, two otherwise healthy markets, although all markets tracked continued to experience higher input and labor costs.

The recent Federal Reserve report noted that, "Construction activity has remained steady overall. Nonresidential construction starts have weakened for both commercial and industrial space." It also clarified that, "much of the softness reflects widespread shortages of labor and materials, as well as escalating costs."

The Mortenson Construction Cost Index data reflects current market conditions with increases in all 30 component categories tracked, which includes labor, material, equipment, and trade partner feedback. For the second quarter of 2022, our construction cost data indicates an average input cost increase of 3.3%.

Based on market data and observations and our insights, we see much of the same moving forward in the second half of the year including ongoing workforce challenges, increases in material shipping costs, and product lead times and material shortages remaining a challenge. A resilient approach to adapt to and minimize these ongoing impacts during project planning and execution will continue to be necessary into 2023.

### Sources

1. Bureau of Labor Statistics, U.S. Department of Labor. (2022, July 14). *Producer Price Indexes—June 2022*. <https://www.bls.gov/news.release/pdf/ppi.pdf>
2. Bousquin, J. (2022, July 15). *Peak pricing? June's PPI shows signs of relief for construction materials*. <https://bit.ly/3J5B190>
3. Federal Reserve System. *Beige Book - June 1, 2022*. <https://www.federalreserve.gov/monetarypolicy/beigebook202206.htm>

For a more specific update or questions regarding this report, please contact:

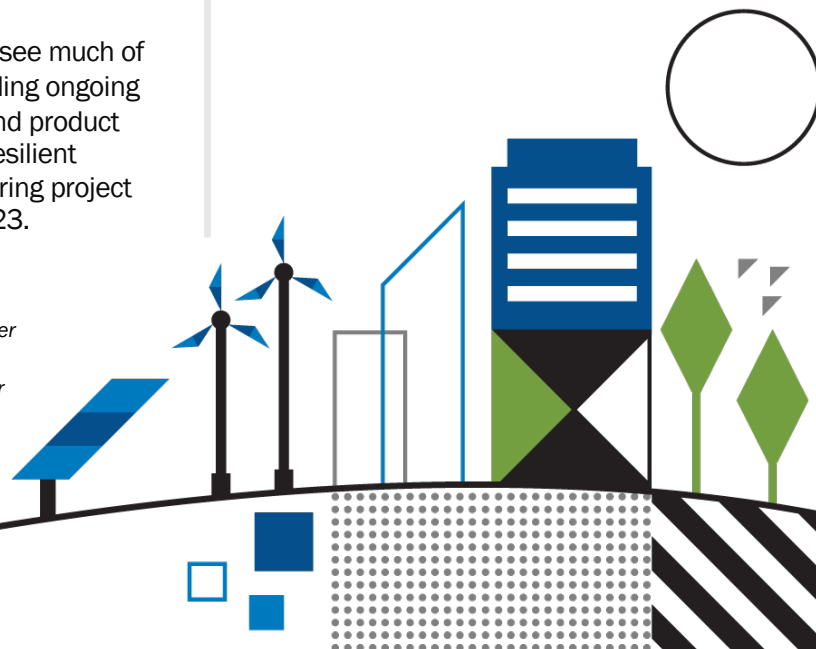


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VIEW THE FULL  
CONSTRUCTION COST INDEX



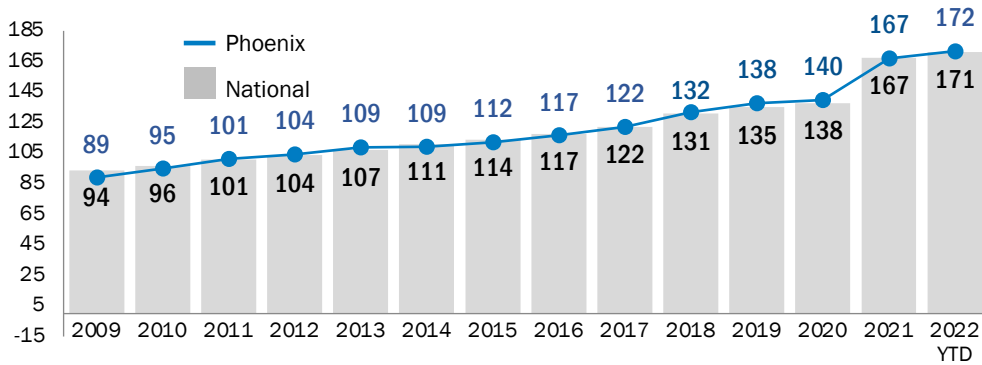
# COST INDEX

## PHOENIX Q2 2022



### CONSTRUCTION COST INDEX

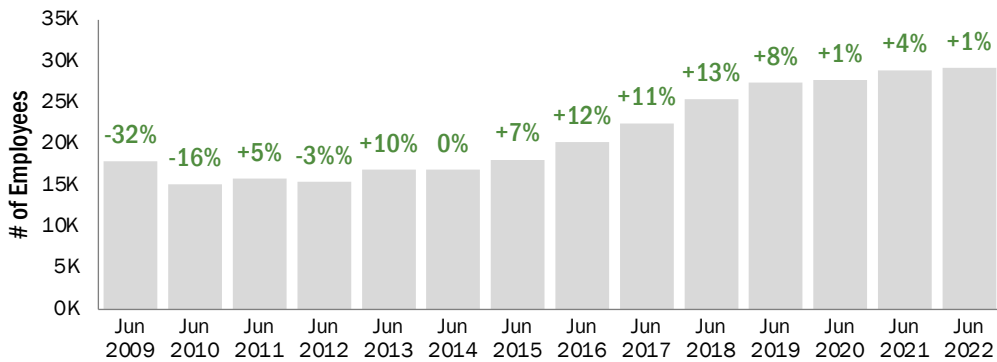
(January 2009 = 100)



The *Mortenson Cost Index* is showing a single quarter increase of 3.3% nationally and 2.6% in Phoenix. Over the last twelve months, costs increased 11.8% nationally and 10.7% in Phoenix.

### PHOENIX CONSTRUCTION EMPLOYMENT

(Number of Employees and 12-Month Change)

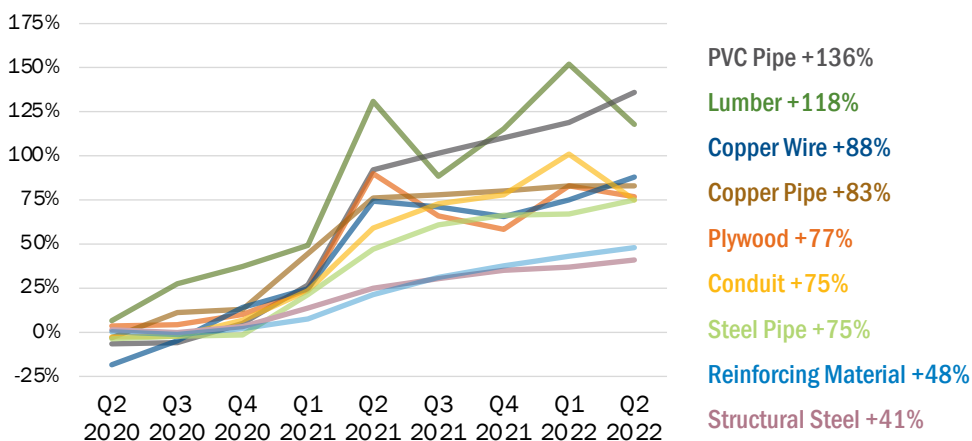


Building construction employment in the Phoenix metro region reached 29,200 in June 2022. This is a 1% increase (300 jobs) compared to June 2021. Labor availability will remain a top concern throughout 2022.

*Source: Bureau of Labor Statistics*

### MATERIAL PRICING CHANGES

(Cumulative Q2 2020 to Q2 2022)



Costs for building materials remain escalated due to continued increases in shipping costs, fuel surcharges, product lead times, and material shortages.